**UNITED STATES DISTRICT COURT**

**SOUTHERN DISTRICT OF NEW YORK**

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| DAVID SEDLMYER, Individually and On Behalf of All Others Similarly Situated,<br><br>Plaintiff,<br><br>vs.<br><br>THORNBURG MORTGAGE, INC., GARRETT THORNBURG, LARRY A. GOLDSTONE, CLARENCE G. SIMMONS, III, ANNE-DRUE M. ANDERSON, DAVID A. ATER, JOSEPH H. BADAL, ELIOT R. CUTLER, MICHAEL B. JEFFERS, IKE KALANGIS, OWEN M. LOPEZ, FRANCIS I. MULLIN, III, and STUART C. SHERMAN,<br><br>Defendants. | **CIVIL ACTION NO. 07-cv-08315**<br><br>CLASS ACTION COMPLAINT<br><br>**JURY TRIAL DEMANDED** |

Plaintiff, David Sedlmyer ("Plaintiff"), alleges the following based upon the investigation by Plaintiff's counsel, which included, among other things, a review of the defendants' public documents, conference calls and announcements made by defendants, United States Securities and Exchange Commission ("SEC") filings, wire and press releases published by and regarding Thornburg Mortgage, Inc. ("Thornburg Mortgage" or the "Company"), securities analysts' reports and advisories about the Company, and information readily available on the Internet, and Plaintiff believes that substantial additional evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

## NATURE OF THE ACTION AND OVERVIEW

1. This is a federal class action on behalf of purchasers of Thornburg Mortgage's securities between October 6, 2005 and August 17, 2007, inclusive (the "Class Period"), seeking to pursue remedies under the Securities Exchange Act of 1934 (the "Exchange Act").

2. Thornburg Mortgage operates as a single-family residential mortgage lending company that originates, acquires, and retains investments in adjustable and variable rate mortgage assets. The Company acquires and originates assets through correspondent lending, wholesale lending, direct retail lending, bulk acquisition programs, and other entities involved in originating, securitizing, packaging, and selling mortgage-backed securities and mortgage loans.

3. Beginning on August 7, 2007, investors were shocked when numerous financial analyst firms and ratings agencies downgraded the Company's securities due to liquidity concerns. Deutsche Bank downgraded the Company from "Hold" to "Sell" noting that as a result of a lack of liquidity, the value of the Company's portfolio was "sinking," which exposed it to margin calls. On this news, the Company's shares declined $1.89 per share, or 7.9 percent, to close on August 7, 2007 at $21.95 per share, on unusually heavy trading volume.

4. Then on August 10, 2007, Standard & Poor's ("S&P") cut the Company's credit rating from "B" to "BB" stating that Thornburg's access to repo funding was restricted, that the Company was facing increasing margin calls, and that the Company's reliance on short-term funding was further restricting its access to liquidity. Also on August 10, 2007, AG Edwards downgraded the Company's securities from "Buy" to "Hold/Speculative" noting that the Company "could receive additional margin calls and potentially have credit lines pulled, which could negatively impact earnings, dividends and book value." On this news, the Company's shares fell an additional $3.17 per share, or 14.9 percent, to close on August 10, 2007 at $18.06

per share, again on heavy trading volume.

5. On August 13, 2007, *The Associated Press* reported that as a result of the S&P downgrade, the Company would "likely have to pay higher interest or provide more collateral to borrow money in the future." As stated therein, Thornburg could see a "significant impact" on its ability to retain assets and generate income, and that such higher borrowing costs "could put a dent in the [C]ompany's bottom line and force Thornburg Mortgage to cut its dividend." On this news, the Company's shares declined an additional $3.78 per share, or over 20.9 percent, to close on August 13, 2007 at $14.28 per share, on heavy trading volume.

6. Then on August 14, 2007, the Company's securities were downgraded by Piper Jaffray, Jefferies & Co, Friedman Billings Ramsey & Co., RBC Capital Markets, and Credit Suisse. Piper Jaffray noted that the Company was "having increased liquidity pressures." Also on August 14, 2007, Moody's cut the Company's credit ratings two levels to B2, its fifth-highest speculative-grade ranking, and left the ratings on review for another downgrade. On this news, the Company's shares declined an additional $6.67 per share, or 46.7 percent, to close on August 14, 2007 at $7.61 per share, on unusually heavy trading volume.

7. Later on August 14, 2007, after the close of the market, the Company confirmed that it was suffering from a liquidity crunch and that it was facing increased margin calls, and disclosed that it was postponing its quarterly dividend. The Company also stated that there were "disruptions" in its ability to fund mortgage assets in the commercial paper and the asset-backed securities markets, and the Company had experienced delays in its ability to fund mortgage loans to its lending partners. Finally, the Company disclosed that its book value had declined to $14.28 per share, compared to a reported $19.38 per share as of June 30, 2007.

8. Then on August 20, 2007, the Company was forced to sell $20.5 billion of

securities at a steep discount to pay down debt. As a result, the Company stated that it would record a $930 million loss in the third quarter on the sale, "resulting in a probable net loss for the year." The sale of these securities reduced the Company's mortgage asset portfolio from $56.4 billion down to $36.4 billion. The Company also disclosed that its book value had declined to $12.40 as of August 17, 2007, compared with a reported $14.28 on August 13, 2007 and a reported $19.38 on June 30, 2007. On this news, the Company's shares declined an additional $1.54, or 10.2 percent, to close on August 20, 2007 at $13.50 per share, on heavy trading volume.

9. The Complaint alleges that, throughout the Class Period, defendants failed to disclose material adverse facts about the Company's financial well-being, business relationships, and prospects. Specifically, defendants failed to disclose or indicate the following: (1) that the Company was facing an increasing level of margin calls; (2) that the Company was experiencing increasing difficulties in funding its operations and selling its securities; (3) that the Company was in a precarious liquidity position due to reduced financing options; (4) that the Company's financial situation had significantly deteriorated causing the Company to sell over $20 billion in securities at a steep discount; (5) that the Company's financial statements were materially false and misleading; and (6) that the Company lacked adequate internal and financial controls.

10. As a result of defendants' wrongful acts and omissions, and the precipitous decline in the market value of the Company's securities, Plaintiff and other Class Members have suffered significant losses and damages.

## JURISDICTION AND VENUE

11. The claims asserted herein arise under and pursuant to Sections 10(b) and 20(a) of the Exchange Act, (15 U.S.C. §§ 78j(b) and 78t(a)), and Rule 10b-5 promulgated thereunder (17

C.F.R. § 240.10b-5).

12. This Court has jurisdiction over the subject matter of this action pursuant to Section 27 of the Exchange Act (15 U.S.C. § 78aa) and 28 U.S.C. § 1331.

13. Venue is proper in this Judicial District pursuant to Section 27 of the Exchange Act, 15 U.S.C. § 78aa and 28 U.S.C. § 1391(b). Many of the acts and transactions alleged herein, including the preparation and dissemination of materially false and misleading information, occurred in substantial part in this Judicial District.

14. In connection with the acts, conduct and other wrongs alleged in this Complaint, defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including but not limited to, the United States mails, interstate telephone communications and the facilities of the national securities exchange.

## PARTIES

15. Plaintiff, David Sedlmyer, as set forth in the accompanying certification, incorporated by reference herein, purchased Thornburg Mortgage's securities at artificially inflated prices during the Class Period and has been damaged thereby.

16. Defendant Thornburg Mortgage is a Maryland corporation with its principal place of business located at 150 Washington Ave, Santa Fe, New Mexico.

17. Defendant Garrett Thornburg ("Thornburg") was, at all relevant times, the Company's Chief Executive Officer ("CEO"), and Chairman of the Board of Directors.

18. Defendant Larry A. Goldstone ("Goldstone") was, at all relevant times, the Company's President and Chief Operating Officer ("COO").

19. Defendant Clarence G. Simmons, III ("Simmons") was, at all relevant times, the Company's Chief Financial Officer ("CFO") and Senior Executive Vice President.

20. Defendant Anne-Drue M. Anderson ("Anderson") was, at all relevant times, a member of the Company's Board of Directors.

21. Defendant David A. Ater ("Ater") was, at all relevant times, a member of the Company's Board of Directors.

22. Defendant Joseph H. Badal ("Badal") was, at all relevant times, the Company's Chief Lending Officer, Senior Executive Vice President, and a member of the Board of Directors.

23. Defendant Eliot R. Cutler ("Cutler") was, at all relevant times, a member of the Company's Board of Directors.

24. Defendant Michael B. Jeffers ("Jeffers") was, at all relevant times, a member of the Company's Board of Directors.

25. Defendant Ike Kalangis ("Kalangis") was, at all relevant times, a member of the Company's Board of Directors.

26. Defendant Owen M. Lopez ("Lopez") was, at all relevant times, a member of the Company's Board of Directors.

27. Defendant Francis I. Mullin, III ("Mullin") was, at all relevant times, a member of the Company's Board of Directors.

28. Defendant Stuart C. Sherman ("Sherman") was, at all relevant times, a member of the Company's Board of Directors.

29. Defendants Thornburg, Goldstone, Simmons, Anderson, Ater, Badal, Cutler, Jeffers, Kalangis, Lopez, Mullin and Sherman are collectively referred to hereinafter as the "Individual Defendants." The Individual Defendants, because of their positions with the Company, possessed the power and authority to control the contents of Thornburg Mortgage's reports to the SEC, press releases and presentations to securities analysts, money and portfolio

managers and institutional investors, i.e., the market. Each defendant was provided with copies of the Company's reports and press releases alleged herein to be misleading prior to, or shortly after, their issuance and had the ability and opportunity to prevent their issuance or cause them to be corrected. Because of their positions and access to material non-public information available to them, each of these defendants knew that the adverse facts specified herein had not been disclosed to, and were being concealed from, the public, and that the positive representations which were being made were then materially false and misleading. The Individual Defendants are liable for the false statements pleaded herein, as those statements were each "group-published" information, the result of the collective actions of the Individual Defendants.

## SUBSTANTIVE ALLEGATIONS

### Background

30. Thornburg Mortgage operates as a single-family residential mortgage lending company that originates, acquires, and retains investments in adjustable and variable rate mortgage assets. The Company acquires and originates assets through correspondent lending, wholesale lending, direct retail lending, bulk acquisition programs, and other entities involved in originating, securitizing, packaging, and selling mortgage-backed securities and mortgage loans.

### Materially False and Misleading Statements Issued During the Class Period

31. The Class Period begins on October 6, 2005. On this day, the Company issued a press release entitled "Thornburg Mortgage to Exceed Quarterly Mean Estimate; Expected Earnings Continue to Support the Dividend." Therein, the Company, in relevant part, stated:

> Thornburg Mortgage Inc. (NYSE: TMA) today announced it expects to report earnings per share for the third quarter of 2005 that will modestly exceed First Call's mean earnings per share estimate of $0.68, which is also the amount of the company's current quarterly dividend. Further, the company said the quarterly

> financial results were generated from ongoing operations and without the benefit of asset sales.
>
> ***Larry Goldstone, president and chief operating officer, commented that the company was making the announcement to communicate to shareholders that its earnings results continue to support the dividend and that the company's financial performance has not been affected by challenging market conditions to the same degree that other mortgage lending companies have been.***
>
> ***Goldstone said, "The reason for our continued consistent earnings performance can be attributed to three core strategies. First, we have consistently financed our portfolio with long-term fixed-rate borrowings so that increases in short-term interest rates have a minimal impact on earnings. In addition, this same borrowing strategy is protecting us from the earnings fluctuations that would otherwise arise from a flattening yield curve. Second, the company has minimal exposure to rising prepayment rates, since the cost basis at which we own our assets is very low. Finally, because of the high-quality nature of our portfolio and its low price volatility, we were able to deploy some of our excess capital to increase interest-earning assets to help offset the negative impact of tighter mortgage spreads versus our funding costs."*** [Emphasis added.]

32. On October 17, 2005, the Company issued a press release entitled "Thornburg Mortgage Reports Third Quarter EPS of $0.70; Declares $0.68 Third Quarter Dividend; Solid Results Stem from Disciplined Acquisition and Hedging Strategies." Therein, the Company, in relevant part, stated:

> - Book value of $21.09, up 11% year-over-year
> - Quarterly dividend maintained at $0.68, a 1% increase over prior year
> - 3Q mortgage originations of $1.3 billion, up 10% year-over-year
> - Total assets increase to $39.6 billion, up 50% over 3Q 2004
> - Strong credit underscored by 0.08% 60-day plus delinquent loans

Thornburg Mortgage Inc. (NYSE: TMA) reported net income for the quarter ended Sept. 30, 2005, of $74.0 million, or $0.70 per common share, as compared to $58.0 million, or $0.69 per common share, for the quarter ended Sept. 30, 2004.

* * *

Garrett Thornburg, chairman and chief executive officer, remarked, "Our performance during the quarter remained strong despite the current challenges confronting the mortgage industry. While the Fed Funds rate has increased 275 basis points since mid-2004, our earnings have remained fairly constant. ***Our business model protects our profitability during periods of rising interest rates or flattening yield curves by requiring that we fund our hybrid adjustable-rate mortgage (ARM) portfolio with fixed-rate borrowings of comparable maturity. This strategy clearly reduced our net interest income and earnings in prior years, but has been instrumental in allowing us to maintain our earnings through this rising interest rate cycle."***

Thornburg added, "Furthermore, even as prepayment activity has temporarily increased in response to the decline in longer-term interest rates and the flattening of the yield curve, our quarterly premium amortization expense has remained manageable because the unamortized cost basis of our ARM portfolio is very low -- 100.9% of par at Sept. 30, 2005. ***These ongoing risk management initiatives have allowed us to achieve relative earnings stability in a relatively unstable interest rate environment and give us confidence in our future earnings prospects."***

***Larry Goldstone, president and chief operating officer, remarked, "We have also employed other strategies designed to help us maintain our earnings in this environment. The issuance of $63.1 million of preferred stock and the completion of a $1.6 billion collateralized debt obligation financing (CDO) in the second quarter, as well as using some of our excess liquidity to modestly increase the size of our balance sheet during the third quarter all contributed positively to our third quarter results. By pursuing these diverse strategies, our income for the quarter was derived solely from ongoing operations and not from asset sales."***

* * *

Goldstone concluded, "Our strategy to maintain a strong balance sheet and better utilize our existing capital base is proving successful. Accordingly, we anticipate 2005 earnings per share will

fall within the range of analyst estimates as polled by First Call, or between $2.72 and $2.80 per share. And, our current internal projections suggest that future earnings should cover the dividend even if the Federal Reserve were to raise the Fed Funds rate to 5% by the end of 2006. Further, we have undistributed taxable income of $0.33 per share, after the payment of the third quarter dividend, to support the dividend even if our earnings dip temporarily below the current dividend level."

* * *

**Third Quarter Results**

The company once again delivered solid quarterly operating results. Net income grew to $74.0 million, up 28% from $58.0 million a year ago, and net interest income grew to $92.2 million, or 28% higher than a year ago. Return on equity for the third quarter was 13.9% compared to 15.2% for the year-ago period reflecting higher prepayments and a continued tight margin environment.

* * *

Clarence Simmons, senior executive vice president and chief financial officer, commented, "Our historical portfolio margin remained relatively stable during the quarter as compared to the prior quarter. While we have been impacted to some degree by the Federal Reserve's tightening monetary policy and narrow spreads on newly acquired assets, the relative stability of our portfolio margin on a quarter-over-quarter basis is encouraging."

Simmons explained, "Our exposure to rising interest rates and a flattening yield curve are substantially reduced because we pursue a match funding strategy, meaning we fund our ARM assets with a combination of borrowings and interest rate swaps having similar durations. At Sept. 30, 2005, the weighted average maturity of our fixed-rate and hedged floating rate borrowings was 2.9 years and the duration gap on our hybrid ARMs, which represents 91% of our ARM portfolio, was approximately four months, up slightly from three months in the second quarter. The lower our duration the less sensitive our earnings will be to changes in interest rates."

* * *

***The company continues to maintain strong credit quality.*** At Sept. 30, 2005, ARM assets rated AAA or AA comprised 98.1% of the ARM portfolio. Purchased ARM securities represented 48.7% of ARM assets. Another 32.8% represented "A quality" loans that

> the company has securitized into AAA- or AA-rated securities. Purchased securitized loans, which represent securities where the company has purchased 100% of the securitized mortgage loans from other sellers, comprised 16.6% of ARM assets. The company has retained the credit risk associated with the ownership of these purchase securitized loans and has a reserve for loan losses in the form of a non-accretable discount of $10.0 million, or 0.16% of the balance of these securities. An additional 0.9% of the ARM portfolio consisted of "A quality" ARM loans that the company intends to securitize and retain in its portfolio. [Emphasis added.]

33. On November 8, 2005, the Company filed its Quarterly Report with the SEC on Form 10-Q. The Company's 10-Q was signed by Defendants Thornburg, Goldstone, and Simmons, and reaffirmed the Company's financial results previously announced on October 17, 2005.

34. The Company's Form 10-Q also contained Sarbanes-Oxley required certifications, signed by Defendants Thornburg, Goldstone, and Simmons, who stated:

> I, [Garrett Thornburg, Larry A. Goldstone, and Clarence G. Simmons, III], certify that:
>
> 1. I have reviewed this report on Form 10-Q of Thornburg Mortgage, Inc.;
>
> 2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
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> 3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
>
> 4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)), and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

* * *

> In connection with the Quarterly Report of Thornburg Mortgage, Inc. (the "Company") on Form 10-Q for the period ending September 30, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, [Garrett Thornburg, Chief Executive Officer / Larry A. Goldstone, President and Chief Operating Officer / Clarence G. Simmons, III, Senior Executive Vice President and Chief Financial Officer] of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:
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> (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
>
> (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

35. On January 24, 2006, the Company issued a press release entitled "Thornburg Mortgage Reports EPS of $2.79 for 2005; Company's Business Strategy Proves Resilient in a Challenging Year." Therein, the Company, in relevant part, stated:

> - Book value reaches $20.00; up 3% year-over-year
> - Annual mortgage originations of $5.0 billion; up 15% year-over-year
> - Total assets increase to $42.5 billion; a 46% increase over prior year
> - Strong credit underscored by 0.08% 60-day plus delinquent loans
>
> Thornburg Mortgage Inc. reported net income for the year ended Dec. 31, 2005, of $282.8 million, or $2.79 of diluted earnings per common share, as compared to $232.6 million, or $2.80 of diluted earnings per common share for the prior year. For the fourth quarter, net income was $72.8 million, or $0.68 of diluted earnings per common share, as compared to $63.3 million, or $0.71 of diluted earnings per common share, for the quarter ended Dec. 31, 2004.

Garrett Thornburg, chairman and chief executive officer, remarked, "Our performance in 2005 was outstanding given the unremitting challenges confronting the mortgage industry. Despite the Fed Funds rate increasing 325 basis points over the past 18 months and the extremely competitive environment facing mortgage portfolio lenders, our earnings remained strong and we maintained our dividend. ***We sustained our earnings through this difficult environment by remaining focused on our core interest rate risk management practices and choosing to forego short-term profits in more favorable environments for more stable profitability in challenging ones such as today's.*** We have $0.38 per share of estimated undistributed taxable income to support the dividend should our earnings temporarily fall below the current dividend level. ***And while rising interest rates in 2006 may continue to present some challenges, we feel confident in our ability to maintain the current dividend level.***"

Larry Goldstone, president and chief operating officer, remarked, "The company's performance was solid in 2005 despite an environment that has continued to erode our portfolio margin. ***Our earnings results confirm the strength of our diversified business model and the benefit of focusing on high credit quality assets and interest rate risk management, both key contributors to our stable net interest income. We also attribute our results to the successful execution of financing and alternative capital raising transactions that augment our core spread lending business.*** The issuance of common and preferred stock, junior subordinated debt, the completion of collateralized debt obligation (CDO) financings, as well as deploying some of our excess liquidity, all contributed to balance sheet growth and earnings stability during the year. ***We believe these strategies are critical to ensuring current and future dividend coverage regardless of a potential worsening interest rate or mortgage market environment.***"

* * *

***Goldstone continued, "A relatively strong stock price during most of 2005 also allowed us to issue new common equity opportunistically throughout the year through our diverse capital-raising programs. We received net proceeds of $363.2 million from these equity issuances at an average net price of $28.22 per share.*** These issuances are a powerful tool to increase book value and earnings given we issued these shares at 1.4x our book value. ***In 2005, we also introduced a new source of long-term capital with the issuance of $115.8 million of preferred stock.*** The 8% dividend yield on this $25.00 security makes it an excellent alternative to raising common equity. ***The aggregate net***

***proceeds to the company were $111.5 million***, which equates to an effective cost of 8.3%. ***These common and preferred issuances provide another avenue to enhance earnings for common shareholders, strengthen our balance sheet and achieve financing diversification. Our target in 2006 is to raise approximately $580 million in common and preferred equity to further strengthen our capital base, support further asset growth and boost earnings."***

***Goldstone concluded, "This year demonstrated that Thornburg Mortgage is unique in the residential mortgage lending market. Our business model and strategies were tested, and not only withstood a challenging environment, but also allowed us to outperform many of our peers. By focusing only on excellent quality assets, hedging our portfolio effectively to combat changes in interest rates, and utilizing an array of asset acquisition, financing and capital strategies, we believe we can continue to grow our balance sheet, access funding through a full credit cycle, and provide a stable dividend investment for our shareholders."***

* * *

[Joseph] Badal added, "Based on the latest mortgage origination statistics, we are the nation's 20th largest correspondent lender. We believe our continued success is due in large part to our growing network of lending partners in the correspondent channel, which increased 25% in 2005 to 212. Since 2001, we've expanded the number of participants in this program by 44% a year and annual production volume from these participants has grown 77%. ***These partners choose Thornburg Mortgage because we specialize in lending to jumbo borrowers who often have a sophisticated investment perspective as well as complex financial needs. Our correspondent partners recognize that these types of clients benefit greatly from Thornburg Mortgage's diverse products, common sense underwriting, competitive pricing and accessible staff, making Thornburg Mortgage the logical choice."***

Badal continued, "We've also made great strides in laying the ground work to similarly penetrate the sizeable mortgage broker market which we're set to rollout in the first quarter of this year. We've hired our operational and sales leaders, our back office infrastructure is nearly complete, and we've identified specific geographic areas with brokers who meet our criteria. ***With our targeted approach to this channel and our ability to consistently meet the needs of the broker community -- high-touch customer service, consistent underwriting and service, competitive pricing***

***and innovative products -- we fully expect to generate the same success over time as we have in the correspondent channel."***

* * *

***The credit quality of the company's originated loans has remained exceptional.*** At Dec. 31, 2005, the company's 60-day plus delinquent loans were only 0.08% of $14.3 billion of securitized and unsecuritized loans, unchanged from the third quarter, but significantly below the industry's conventional and prime ARM loan delinquency ratios of 1.71% and 0.62%, respectively. At Dec. 31, 2005, loan loss reserves totaled $10.7 million, which management believes is an appropriate reserve level given the characteristics of the loan portfolio. The company has not realized a loan loss in the past 16 quarters, and since it began acquiring loans in 1997, the company has experienced cumulative credit losses of only $174,000.

**Fourth Quarter Results**

The company delivered solid operating results in the fourth quarter despite a challenging environment. Net income grew to $72.8 million, up 15% from $63.3 million a year ago, and net interest income grew to $88.3 million, or 12% higher than a year ago. Notably, 99% of earnings were comprised of core interest margin and mortgage lending income. Return on equity for the fourth quarter was 14.0% compared to 15.2% for the year ago period reflecting a continued tight margin environment.

* * *

Clarence Simmons, senior executive vice president and chief financial officer, commented, "The competitive mortgage landscape has driven spreads tighter on new asset acquisitions while the yield curve has continued to flatten. As a result, spreads in the prime hybrid ARM market are currently between 75 and 85 basis points. To offset this pressure we are focused on acquiring and ultimately originating high-quality Pay Option ARMs where the spread is considerably wider and the duration characteristics are more straightforward. ***We believe our underwriting capabilities and extensive experience with jumbo and super jumbo loans will allow us to prudently access assets at far better returns than are currently available through standard hybrid ARM acquisitions."***

Simmons continued, "We also took measures to further protect our portfolio from additional increases in the Fed Funds rate, which

> negatively impacted our portfolio margin. During the quarter, the duration gap on our hybrid ARMs, which represent 92% of our ARM portfolio, decreased to approximately three months from four months as we added an incremental $3.1 billion in new interest rate swaps above that required by new asset acquisitions completed during the quarter. While it reduced our spread by eight basis points during the quarter, this strategy should improve our ability to withstand potential short-term rate increases beyond those already imbedded in the forward yield curve."
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> * * *
>
> ***The company remains committed to preserving strong asset quality.*** At Dec. 31, 2005, ARM assets rated AAA or AA comprised 97.5% of the ARM portfolio. Purchased ARM securities represented 48.7% of ARM assets. Another 32.8% represented "A quality" loans that the company has securitized into AAA- or AA-rated securities. Purchased securitized loans, which represent securities where the company has purchased 100% of the securitized mortgage loans from other sellers, comprised 15.9% of ARM assets. The company has retained the credit risk associated with the ownership of these purchased securitized loans and has a reserve for loan losses in the form of a non-accretable discount of $11.6 million, or 0.16% of the balance of these securities. An additional 1.6% of the ARM portfolio consisted of "A quality" ARM loans that the company intends to securitize and retain in its portfolio. [Emphasis added.]

36. On March 7, 2006, Thornburg filed its Annual Report with the SEC on Form 10-K. The Company's 10-K was signed by the Individual Defendants, and reaffirmed the Company's financial results previously announced on January 24, 2006. The Company's 10-Q also contained Sarbanes-Oxley required certifications, substantially similar to the certifications contained in ¶34, *supra*.

37. On April 18, 2006, the Company issued a press release entitled "Thornburg Mortgage Reports 1Q EPS of $0.66; Declares $0.68 1Q Dividend; Unique Business Model Continues Delivering Strong Results, Stable Dividend in a Challenging Environment." Therein, the Company, in relevant part, stated:

- 1Q mortgage originations of $1.4 billion, up 23% year-over-year

- Quarterly dividend maintained at $0.68

- Total assets increase to $46.1 billion; a 49% increase over prior year

- Strong credit underscored by 0.07% 60-day plus delinquent loans

- Book value of $21.00; unchanged year-over-year

Thornburg Mortgage Inc. (NYSE: TMA) reported net income for the quarter ended March 31, 2006, of $72.4 million, or $0.66 per common share, as compared to $67.5 million, or $0.72 per common share, for the quarter ended March 31, 2005. Taxable earnings for the quarter are estimated to be $0.70 per common share.

* * *

Garrett Thornburg, chairman and chief executive officer, remarked, "As we had anticipated, 2006 has proven to be a challenging year thus far. The interest rate environment and competitive landscape have remained difficult, which has impacted our short-term earnings results. ***Regardless, we are pleased with the strength of our earnings results, and anticipate that our prospects should improve once the market environment changes. In the interim, we believe we can maintain the current dividend level, fulfilling our top priority of building long-term wealth for our shareholders, by minimizing risk and paying consistent dividends.*** After the payment of the first quarter dividend, we will have in reserve an estimated $0.38 per share of undistributed taxable income to support the dividend, should our future earnings temporarily fall below the current dividend level."

***Larry Goldstone, president and chief operating officer, remarked, "Thornburg Mortgage has performed well in this difficult environment by adhering to the core strategies of our unique business model -- effectively hedging our portfolio to manage interest rate fluctuations, focusing exclusively on excellent-quality assets, and utilizing an array of asset acquisition, financing and capital strategies. In sharp contrast to many companies with which we are compared, these strategies have allowed us to maintain a strong balance sheet, consistently***

***access funding and provide a stable dividend to our shareholders."***

* * *

***Goldstone concluded, "Given market expectations and the current challenges confronting the mortgage industry, we don't anticipate our profitability will be impacted significantly. We believe our dividend is secure and barring unforeseen circumstances, our long-term outlook remains positive. We believe our unique business model, consistent risk management practices and strong capital position should ensure another solid year for Thornburg Mortgage."***

* * *

**First Quarter Results**

In the first quarter, net income grew to $72.4 million, up 7% from $67.5 million a year ago, and net interest income grew to $88.6 million, or 7% higher than a year ago. Clarence Simmons, senior executive vice president and chief financial officer, commented, "Notably, 100% of our quarterly earnings was comprised of core interest margin and mortgage lending income. While net interest income per share declined by $0.02 from the previous quarter as portfolio spreads declined, we did benefit from tighter spreads and rising rates as evidenced by a $6.5 million net gain on our pipeline of mortgage loan commitments and offsetting pipeline hedging transactions, and a modest improvement in other comprehensive income. Return on equity for the first quarter was 13.3% compared to 14.5% for the year ago period, reflecting a continued tight margin environment."

* * *

Simmons continued, "During the quarter, our portfolio duration increased from three months to five months, largely as a result of the increase in duration of the hybrid ARMs, in response to the steepening yield curve and decreased prepayments. At March 31, 2006, the quarterly Constant Prepayment Rate (CPR) averaged 14.7%, down significantly from 22.1% CPR in the previous quarter. We continue to actively monitor and manage interest rate risk, especially in today's environment, where the direction of short-term interest rates is uncertain. By closely matching the duration of our hybrid ARMs and our hedged borrowings, we limit the impact future changes in interest rates have on our earnings. Fixing the interest rate on our short-term borrowings comes at a

> higher cost, but this strategy, in part, is why our performance has been consistent."
>
> * * *
>
> ***The company remains committed to preserving strong asset quality.*** At March 31, 2006, ARM assets rated "AAA" or "AA" comprised 97.4% of the ARM portfolio. AAA- and AA-rated purchased ARM securities represented 45.7% of ARM assets. Another 35.4% represented "A quality" loans that the company has securitized into AAA- or AA-rated securities. Purchased securitized loans, which represent securities where the company has purchased 100% of the securitized mortgage loans from other sellers, comprised 16.4% of ARM assets. The company has retained the credit risk associated with the ownership of these purchased securitized loans, and has a reserve for loan losses in the form of a non-accretable discount of $15.3 million, or 0.20% of the balance of these securities. During the first quarter, the company realized loan losses of $361,000 on its purchased securitized loans, which were charged against reserves, and a $214,000 impairment charge was recorded to provide for additional future losses. [Emphasis added.]

38. On May 9, 2006, Thornburg filed its Quarterly Report with the SEC on Form 10-Q. The Company's 10-Q was signed by Defendants Thornburg, Goldstone, and Simmons, and reaffirmed the Company's financial results previously announced on April 18, 2006. The Company's 10-Q also contained Sarbanes-Oxley required certifications, substantially similar to the certifications contained in ¶34, *supra*.

39. On July 20, 2006, the Company issued a press release entitled "Thornburg Mortgage Reports 2Q EPS of $0.61; Declares $0.68 2Q Dividend." Therein, the Company, in relevant part, stated:

> - 2Q mortgage originations of $1.4 billion, up 31% year-over-year
> - Quarterly dividend maintained at $0.68
> - Total assets increase to $49.9 billion; a 45% increase over prior year

- Strong credit underscored by 0.05% 60-day plus delinquent loans

- Book value of $21.27; up 1% year-over-year

Thornburg Mortgage Inc. (NYSE: TMA) reported net income for the quarter ended June 30, 2006, of $69.6 million, or $0.61 per common share, as compared to $68.5 million, or $0.70 per common share, for the quarter ended June 30, 2005.

* * *

Garrett Thornburg, chairman and chief executive officer, remarked, "The difficult competitive and operating environment facing mortgage portfolio lenders has not abated, which continues to put downward pressure on our portfolio margin and in turn our earnings results. We remain confident that our earnings over the balance of the year when combined with our undistributed taxable income will be sufficient to cover the dividend at the current level. After the payment of the second quarter dividend, we have in reserve an estimated $0.24 per share of undistributed taxable income."

Larry Goldstone, president and chief operating officer, remarked, "Mortgage spreads over our cost of funds have continued to narrow across all of our asset acquisition channels as competition for mortgage assets has further intensified. And the continued increases in short-term interest rates and flat yield curve only add to the difficult environment. ***Our approach to offsetting these competitive and market pressures remains the same -- to grow our balance sheet using an array of asset acquisition, financing and capital strategies including effectively employing our strong capital base while still managing interest rate and credit risk.***"

* * *

***Goldstone added, "An improvement in our stock price during the second quarter allowed us to raise common equity in the net amount of $151.9 million through our diverse capital-raising programs at an average net price of $27.60.*** Going forward, given the extraordinarily tight spread environment, rate of return opportunities are lower than they have been previously and we may consider utilizing other lower cost, long-term capital sources to support future earnings and balance sheet growth."

* * *

**Second Quarter Results**

> In the second quarter, net income earned was $69.6 million, up 2% from $68.5 million a year ago. Net interest income was $80.2 million compared to $80.9 million, or 1% less than a year ago. Clarence Simmons, senior executive vice president and chief financial officer, commented, "While net interest income declined by $0.11 per share from the previous quarter in response to declining portfolio spreads, we did benefit from tighter spreads and rising rates as evidenced by a $9.1 million net gain ($0.07 per share on a performance fee adjusted basis) on our pipeline of mortgage loan commitments and offsetting pipeline hedging transactions. During the quarter, we acquired $1.3 billion of whole loans through bulk purchases, in addition to the $1.4 billion of loans we originated through proprietary channels in order to profitably grow the portfolio by permanently financing and leveraging these assets at a higher multiple through CDO transactions. Additionally, we had a bulk loan pipeline totaling $1.2 billion at June 30, 2006."
>
> * * *
>
> ***The company continues to maintain strong credit quality.*** At June 30, 2006, ARM assets rated "AAA" or "AA" comprised 97.5% of the ARM portfolio. AAA- and AA-rated purchased ARM securities represented 46.1% of ARM assets. Another 36.9% represented "A quality" loans that the company has securitized into AAA- or AA-rated securities. Purchased securitized loans, which represent securities where the company has purchased 100% of the securitized mortgage loans from other sellers, comprised 14.5% of ARM assets. The company has retained the credit risk associated with the ownership of these purchased securitized loans and has a reserve for loan losses in the form of a non-accretable discount of $15.3 million, or 0.20% of the balance of these securities. [Emphasis added.]

40. On August 8, 2006, the Company filed its Quarterly Report with the SEC on Form 10-Q. The Company's 10-Q was signed by Defendants Thornburg, Goldstone, and Simmons, and reaffirmed the Company's financial results previously announced on July 20, 2006. The Company's 10-Q also contained Sarbanes-Oxley required certifications, substantially similar to the certifications contained in ¶34, *supra*.

41. On October 16, 2006, the Company issued a press release entitled "Thornburg Mortgage Reports 3Q EPS of $0.64." Therein, the Company, in relevant part, stated:

- 3Q mortgage originations of $1.4 billion, up 10% year-over-year

- Quarterly dividend maintained at $0.68

- Total assets increase to $52.9 billion; a 34% increase over prior year

- Strong credit underscored by 0.06% 60-day plus delinquent loans

Thornburg Mortgage, Inc. (NYSE: TMA) reported net income before preferred stock dividends for the quarter ended September 30, 2006, of $75.3 million, or $0.64 per common share, as compared to $74.0 million, or $0.70 per common share, for the quarter ended September 30, 2005.

* * *

Garrett Thornburg, chairman and chief executive officer of Thornburg Mortgage, remarked, "***While the environment continues to be challenging, continued execution of our core strategies has allowed us to achieve relative earnings stability and maintain the dividend.*** After the payment of the third quarter dividend, based on common shares outstanding, we will have remaining an estimated $0.12 per share of undistributed taxable income. We remain confident that this amount, when combined with our fourth quarter earnings, will allow us to maintain the current dividend level through the remainder of this year."

***Larry Goldstone, the company's president and chief operating officer, remarked, "We continue to employ effective strategies to grow our portfolio and help offset the competitive market and interest rate pressures in order to sustain our earnings.*** In the third quarter, our earnings benefited from new asset acquisitions financed with collateralized debt obligations (CDOs), gains in our hedged mortgage loan commitments, slowing portfolio prepayment rates and the additional utilization of some of our excess capital."

* * *

Mr. Goldstone continued, "The increased loan origination and acquisition activity during the quarter also brought about a $5.9 million market value gain on our pipeline of mortgage loan commitments and offsetting pipeline hedging transactions due to the effective management of our mortgage loan pipeline. This had

a positive impact on earnings of $0.04 per share on a performance fee adjusted basis."

***Mr. Goldstone added, "We also issued a modest amount of common and preferred stock during the quarter raising common equity in the net amount of $10.5 million through our diverse capital-raising programs at an average net price of $25.29 per share. Additionally, we received net proceeds of $5.4 million from preferred stock issuances at an average net price of $24.20 per share."***

* * *

**Third Quarter Results**

In the third quarter, net income earned before preferred stock dividends was $75.3 million, up 2% from $74.0 million a year ago. Net interest income was $87.1 million compared to $92.2 million, or 5% less than a year ago. Return on equity for the third quarter was 12.6% compared to 13.9% for the year ago period, reflecting the continued tight margin environment and continued increase in the company's cost of funds relative to its asset yields. Operating expenses as a percentage of average assets decreased to 0.17% at September 30, 2006, from 0.22% at September 30, 2005, remaining among the lowest in the industry and helping to support earnings. ***Book value was $20.03 per share, down 5% from $21.09 a year ago.***

* * *

***The company continues to maintain strong credit quality.*** At September 30, 2006, ARM assets rated "AAA" or "AA" comprised 96.9% of the ARM portfolio. AAA- and AA-rated purchased ARM securities represented 42.3% of ARM assets. Another 41.3% represented "A quality" loans that the company has securitized into AAA- or AA-rated securities. Purchased securitized loans, which represent securities where the company has purchased 100% of the securitized mortgage loans from other sellers, comprised 13.3% of ARM assets. The company has retained the credit risk associated with the ownership of these purchased securitized loans and has a reserve for loan losses in the form of a non-accretable discount of $15.3 million, or 0.21% of the balance of these securities. [Emphasis added.]

42. On November 8, 2006, the Company filed its Quarterly Report with the SEC on Form 10-Q. The Company's 10-Q was signed by Defendants Thornburg, Goldstone, and

Simmons, and reaffirmed the Company's financial results previously announced on October 16, 2006. The Company's 10-Q also contained Sarbanes-Oxley required certifications, substantially similar to the certifications contained in ¶34, *supra*.

43. On January 23, 2007, the Company issued a press release entitled "Thornburg Mortgage Reports EPS of $2.58 for 2006." Therein, the Company, in relevant part, stated:

> **Company's Disciplined and Efficient Core Strategies Create Solid Returns Despite Challenging Year**
>
> - Annual mortgage originations of $5.6 billion; up 13% year-over-year
> - Total assets of $52.7 billion; a 24% increase over prior year
> - Strong credit underscored by 0.11% 60-day plus delinquent loans
> - New wholesale lending channel now supports more than 200 brokerage firms, 2,000 loan officer relationships
>
> Thornburg Mortgage, Inc. (NYSE: TMA) reported net income before preferred stock dividends for the year ended December 31, 2006, of $297.7 million, or $2.58 per common share, as compared to $282.8 million, or $2.79 per common share for the prior year. For the fourth quarter, net income before preferred stock dividends was $80.3 million, or $0.68 per common share, as compared to $72.8 million, or $0.68 per common share, for the quarter ended December 31, 2005.
>
> Garrett Thornburg, chairman and chief executive officer of Thornburg Mortgage, remarked, "While 2006 was a challenging year for the mortgage industry as a whole, ***Thornburg Mortgage once again proved the strength of our exceptional business model. Our strategy has always been to maintain a focus on only originating and/or acquiring excellent credit quality adjustable-rate mortgage (ARM) assets, hedging our borrowings to offset interest rate fluctuations, and utilizing an array of asset acquisition, financing and capital strategies. As a result, our 2006 performance was solid and we sustained the dividend. Looking ahead, the likelihood that we can maintain the current dividend has improved as our fourth quarter results increased our undistributed taxable income.*** Presently, based on common shares outstanding, we have an estimated $0.22 per share of

undistributed taxable income, some of which could be used to support the current quarterly dividend of $0.68 per share."

***Larry Goldstone, the company's president and chief operating officer, remarked, "Our proven and efficient operating model, disciplined interest rate risk management practices and strong capital position provided the foundation for another successful year at Thornburg Mortgage. By successfully executing a number of financing and alternative capital raising transactions, we strengthened our balance sheet and sustained our earnings in an environment where our core spread-lending business was impacted by competitive market and interest rate pressures. The completion of collateralized debt obligation (CDO) financings, the issuance of common and preferred stock, and junior subordinated debt, as well as the deployment of some of our excess liquidity, contributed to balance sheet growth and earnings performance during the year."***

* * *

***Mr. Goldstone added, "A relatively strong stock price during the first half of 2006 enabled us to opportunely raise new common equity in the net amount of $241.8 million through our diverse capital-raising programs at an average net price of $26.87 per share. Additionally, we received net proceeds of $113.4 million from preferred stock issuances at an average net price of $24.11 per share***, including the issuance of our new Series D Adjusting Rate Cumulative Redeemable Preferred Stock in the fourth quarter, which has an attractive fixed dividend at 7.875% for the first five years. This security, with its appealing dividend yield, as well as our 8% Series C Cumulative Redeemable Preferred Stock, are lower cost alternatives to raising common equity. ***Earlier in the year, we also successfully raised unsecured debt by issuing $50.0 million of 7.68%, 30-year junior subordinated notes. In 2007, we anticipate continuing to use these lower-cost, long-term capital sources as an alternative to common equity to support future earnings and balance sheet growth."***

Mr. Goldstone continued, "In 2006, we also benefited from reduced premium amortization as the higher interest rate environment led to slower actual and projected prepayments. Premium amortization in 2006 was $55.8 million, down 40% from $93.5 million in 2005. ***Going forward, based on the current level of mortgage interest rates and the current composition of our ARM portfolio, our portfolio margin and earnings should continue to benefit from reduced premium amortization in 2007. As a result, our outlook for 2007 remains positive even though***

> ***we do not anticipate that the operating environment will change materially in the near term."***
>
> * * *
>
> **Fourth Quarter Results**
>
> In the fourth quarter, net income earned before preferred stock dividends was $80.3 million, up 10% from $72.8 million a year ago. Net interest income was $90.7 million compared to $88.3 million, or 3% greater than a year ago. Return on equity for the fourth quarter was 14.1% compared to 14.0% for the year ago period. For the quarter, operating expenses as a percentage of average assets, which are among the lowest in the industry, decreased to 0.20% at December 31, 2006, from 0.23% at December 31, 2005, which helped support earnings. ***Book value was $18.92 per share, down 5% from $20.00 a year ago, principally as a result of the change in Other Comprehensive Income on a year-over-year basis.***
>
> * * *
>
> ***The company remains committed to preserving strong asset quality.*** At December 31, 2006, ARM assets rated "AAA" or "AA" comprised 96.1% of the ARM portfolio. AAA- and AA-rated purchased ARM securities represented 41.2% of ARM assets. Another 42.1% represented "A quality" loans that the company has securitized into AAA- or AA-rated securities. Purchased securitized loans, which represent securities where the company has purchased 100% of the securitized mortgage loans from other sellers, comprised 12.9% of ARM assets. The company has retained the credit risk associated with the ownership of these purchased securitized loans and has an allowance for loan losses in the form of a non-accretable discount of $15.1 million, or 0.22% of the balance of these securities. [Emphasis added.]

44. On March 1, 2007, the Company filed its Annual Report with the SEC on Form 10-K. The Company's 10-K was signed by the Individual Defendants, and reaffirmed the Company's financial results previously announced on January 23, 2007. The Company's 10-K also contained Sarbanes-Oxley required certifications, substantially similar to the certifications contained in ¶34, *supra*.

45. On April 19, 2007, the Company issued a press release entitled "Thornburg

Mortgage Reports 1Q EPS of $0.62 - Declares $0.68 1Q Dividend." Therein, the Company, in relevant part, stated:

> **Company's Disciplined and Efficient Strategies Result in Solid First Quarter Results; Industry Subprime Problems Improve Opportunities**
>
> - Quarterly dividend maintained at $0.68
> - Margins stabilizing as returns on new investment opportunities improve
> - 1Q mortgage originations of $1.7 billion, up 20% year-over-year
> - Total assets of $55.2 billion; a 20% increase over prior year
> - Continued exceptional credit performance with no losses and 0.11% 60-plus day delinquencies and REO
>
> Thornburg Mortgage, Inc. (NYSE: TMA) reported net income before preferred stock dividends for the quarter ended March 31, 2007, of $75.0 million, or $0.62 per common share, as compared to $72.4 million, or $0.66 per common share for the prior year. Taxable earnings for the quarter are estimated to be $0.64 per common share.
>
> * * *
>
> ***Garrett Thornburg, the Company's chairman and chief executive officer, remarked, "The year 2007 is off to a better start than we had anticipated. Our disciplined approach to interest rate and credit risk management continues to allow us to report earnings above consensus earnings estimates. We anticipate that we will further benefit from the troubles in the mortgage lending industry as credit standards tighten and investment returns on new mortgage assets improve. As a result, our first quarter earnings were solid and we sustained the dividend. And, as we look ahead we are increasingly confident that we may not need to make a downward adjustment in the current dividend rate in 2007. After payment of the first quarter dividend, we will have an estimated $0.11 per share of undistributed taxable income to support future quarterly dividends."***
>
> ***Larry Goldstone, the company's president and chief operating officer, remarked, "Our utilization of capital and financing***

***strategies, continued slow mortgage prepayment activity, continued exceptional credit performance and improving profitability on new mortgage asset acquisitions provided the foundation for another successful quarter at Thornburg Mortgage.*** In successfully executing a number of financing and alternative capital raising transactions, we maintained the strength and liquidity of our balance sheet and benefited our earnings despite an environment in which our core spread-lending business had historically been stressed by competitive market and interest rate pressures. During the quarter, we completed another collateralized mortgage debt transaction through which we permanently financed $1.5 billion of ARM loans. Because of the reduced capital requirement related to these transactions, we had the ability to employ $101.9 million of freed-up capital to support the acquisition of $1.1 billion in additional ARM assets. At March 31, 2007, the balance of our collateralized mortgage debt financing had reached $19.2 billion, accounting for 37% of our balance sheet financing, which we expect will continue to contribute to our earnings in future quarters."

***Mr. Goldstone added, "We also issued a modest amount of common stock during the quarter, raising a net amount of $46.1 million through our diverse capital-raising programs at an average net price of $25.52 per share. Additionally, we received net proceeds of $18.1 million from preferred stock issuances at an average net price of $24.63 per share."***

Mr. Goldstone continued, "In the first quarter, we benefited from wider spreads on new prime quality mortgage assets caused by credit concerns concentrated in the subprime and Alt A segments of the mortgage market, and also from reduced premium amortization as the current interest rate environment led to continued slower-than-projected prepayments. Premium amortization in the first quarter was $7.9 million, down 62% from $20.7 million in the first quarter of 2006. ***Going forward, and based on the current level of prepayment rates, yield curve shape and the improved market for new ARM assets, our portfolio margin and earnings should continue to benefit from better spreads and reduced premium amortization. As a result, our outlook for 2007 and 2008 continues to improve."***

Mr. Goldstone concluded, "Adding to our positive outlook is the anticipated earnings benefit we should realize as the interest rates on approximately $6.7 billion of our hybrid ARMs contractually reset over the next 21 months from an average interest rate of 4.63% to a current market rate. As these seasoned hybrid ARM assets either reprice, refinance or pay off, our earnings will

improve as we are funding many of these assets at negative portfolio margins today. ***Taking all of these factors together, we are increasingly confident that our earnings expectation in 2007 will exceed the high end of the range of the analysts' current estimates as polled by First Call, which are between $2.25 and $2.40 per share, and appears likely to exceed the current dividend level in 2008."***

* * *

**First Quarter Results**

In the first quarter, net income earned before preferred stock dividends was $75.0 million, up 4% from $72.4 million a year ago. Net interest income was $90.7 million compared to $88.6 million, or 2% greater than a year ago. Return on equity for the first quarter was 13.1% compared to 13.3% for the year ago period. For the quarter, operating expenses as a percentage of average assets, decreased to 0.20% at March 31, 2007, from 0.24% at March 31, 2006, which helped support earnings and are amongst the lowest in the industry. ***Book value was $18.76 per share, down 11% from $21.00 a year ago, principally as a result of the change in Other Comprehensive Income on a year-over-year basis.*** The reason for the decline in book value is partially explained by the disproportionate amount of assets and hedging transactions whose market values are being reflected in Other Comprehensive Income as well as the impact of widening spreads on mortgage assets relative to our hedged funding costs.

* * *

***The company remains committed to preserving strong asset quality.*** At March 31, 2007, ARM assets rated "AAA" or "AA" comprised 95.3% of the ARM portfolio. AAA- and AA-rated purchased ARM securities represented 42.3% of ARM assets. Another 41.2% represented "A quality" loans that the company has securitized into AAA- or AA-rated securities. Purchased securitized loans, which represent securities where the company has purchased 100% of the securitized mortgage loans from other sellers, comprised 11.8% of ARM assets. The company has retained the credit risk associated with the ownership of these purchased securitized loans and has an allowance for loan losses in the form of a non-accretable discount of $15.1 million, or 0.23% of the balance of these securities. [Emphasis added.]

46. On May 8, 2007, the Company issued a press release entitled "Wholesale Industry

Expert Joins Thornburg Mortgage as National Broker Sales Executive." Therein, the Company, in relevant part, stated:

> Thornburg Mortgage, Inc. (NYSE: TMA), announced today that Michael McMinn has been named national broker sales executive for the company's recently developed broker origination channel.
>
> In this role, McMinn will head the national expansion effort of Thornburg Mortgage's broker sales network. His primary responsibility will be the development of Thornburg Mortgage's broker sales channel, including hiring and managing experienced personnel in key markets, assisting sales personnel in establishing relationships with quality brokers, assisting in the expansion of the company's operations department, and ensuring the acquisition of high-quality assets.
>
> ***"Thornburg Mortgage has a disciplined approach to our expansion into wholesale originations and we are targeting the same high-credit quality, prime lending partners as we have done in our successful correspondent lending channel. With our originations up 20% already in the first quarter of 2007, we believe that the wholesale channel has significant growth implications for the company," said Thornburg Mortgage Senior Executive Vice President Joseph Badal.*** "We are thrilled to announce the addition of Michael McMinn to the Thornburg Mortgage team. ***His extensive experience and senior level, prime-market lending contacts throughout the mortgage banking world will allow us to maximize our potential for steady and quality origination growth through our developing wholesale channel."*** [Emphasis added.]

47. On May 9, 2007, Thornburg filed its Quarterly Report with the SEC on Form 10-Q. The Company's 10-Q was signed by Defendants Thornburg, Goldstone, and Simmons, and reaffirmed the Company's financial results previously announced on April 19, 2007. The Company's 10-Q also contained Sarbanes-Oxley required certifications, substantially similar to the certifications contained in ¶34, *supra*.

48. On July 19, 2007, the Company issued a press release entitled "Thornburg Mortgage Reports 2Q EPS of $0.66, Declares $0.68 2Q Dividend." Therein, the Company, in relevant part, stated:

**Company's Disciplined and Efficient Strategies Increase Earnings Momentum in the Second Quarter; Continued Exceptional Credit Performance Contributes to Second Quarter Success**

- Quarterly dividend maintained at $0.68 per common share
- Margins improved as returns on new mortgage assets improved and prepayment expectations slowed as interest rates increased
- 2Q mortgage originations of $1.7 billion, up 21% year-over-year
- Total assets of $57.5 billion; a 15% increase year-over-year
- Continued exceptional credit performance with 0.21% 60-plus day delinquencies and REO, well below the 2.32% industry average

Thornburg Mortgage, Inc. (NYSE: TMA) reported net income before preferred stock dividends for the quarter ended June 30, 2007 of $83.4 million, or $0.66 per common share, as compared to $69.7 million, or $0.61 per common share for the same period in the prior year. Taxable earnings for the quarter are estimated to be $0.65 per common share.

* * *

Garrett Thornburg, the company's chairman and chief executive officer, remarked, "The second quarter continued the strong earnings trend that we set in the first quarter. For the second quarter in a row, our earnings were above consensus estimates on the strength of improved margins. ***And, despite all the headline news regarding credit problems in the mortgage lending industry, the credit performance of our prime quality mortgage loan portfolio remained exceptional because of our unwavering focus on high quality lending practices.*** As a result, our second quarter earnings remained solid and we maintained our dividend at $0.68 per common share."

* * *

***Mr. Goldstone added, "A relatively strong common stock price during the second quarter allowed us to opportunistically issue new common equity through our diverse capital-raising programs. We received net proceeds of $189.0 million from these***

***equity issuances at an average net price of $26.12 per share.*** These issuances are a powerful tool to increase book value and earnings given we issued these shares at 1.3x our book value."

***"We issued a new 7.50% Series E Cumulative Convertible Redeemable Preferred Stock at $25.00 per share. From this new issuance, we received net proceeds of $71.2 million at an average net price of $24.08 per share. When combined with additional issuances of our Series C preferred stock, we received net proceeds of $82.4 million at an average net price of $24.16 per share from total preferred stock issuances.*** These common and preferred issuances provide another avenue to enhance earnings for common shareholders, strengthen our balance sheet and achieve financing diversification. By successfully executing a number of financing and alternative capital-raising transactions, we enhanced our earnings prospects and strengthened our balance sheet in an environment where our core spread-lending business has been stressed by competitive market and interest rate pressures."

* * *

Mr. Goldstone concluded, "Adding to our positive outlook is the anticipated earnings benefit we should realize as the interest rates on approximately $5.7 billion of our hybrid ARMs contractually reset over the next 18 months from an average interest rate of 4.68% to a current market rate. As these seasoned hybrid ARM assets either reprice, refinance or pay off, our earnings will improve as we are funding many of these assets at negative portfolio margins today. ***Taking all of these factors together, we are reiterating our belief that our earnings for 2007 will exceed the high end of the range of the current analysts' earnings estimates as polled by First Call, which are between $2.13 and $2.52 per common share. Further, it appears increasingly likely that our earnings in 2008 will exceed the current annual common dividend level of $2.72."***

* * *

**Second Quarter Results**

In the second quarter, net income earned before preferred stock dividends was $83.4 million, up 20% from $69.7 million in the year ago period. Net interest income was $102.3 million compared to $80.2 million, or 27% greater than the year ago period. Return on equity for the second quarter was 13.9% compared to 11.6% for the year ago period. Operating expenses as a percentage of assets remained low, 0.19% for the second quarter and the six month

> period ending June 30, 2007. This was an improvement of 0.02% over the same six month period in 2006, which also helped support current earnings. ***On a GAAP basis, book value was $19.38 per share, up $0.62 over the end of the first quarter. However, book value declined 9% from $21.27 per share from the year ago period, principally as a result of the change in Accumulated Other Comprehensive Loss on a year-over-year basis.*** The reason for the decline in book value is partially explained by the disproportionate amount of assets and hedging transactions whose market values are reflected in Other Comprehensive Loss as well as the impact of widening spreads on mortgage assets relative to our Hedging Instruments and funding costs.
>
> * * *
>
> ***The company remains committed to preserving strong asset quality.*** As of the end of the second quarter, none of the securities in the company's portfolio have been downgraded since acquisition. To the contrary, 22 securities in the portfolio were upgraded from the original rating as a result of increased subordination due to prepayments within the respective collateral pools. At June 30, 2007, ARM assets rated "AAA" or "AA" comprised 94.6% of the ARM portfolio. AAA- and AA-rated purchased ARM securities represented 44.9% of ARM assets. Another 39.1% of ARM assets were "A quality" loans that the company has securitized into AAA- or AA-rated securities. Purchased securitized loans, which represent securitizations in which the company has purchased all principal classes of the securitizations from third parties, comprised 10.6% of ARM assets. The company has retained the credit risk associated with the ownership of these purchased securitized loans and has an allowance for loan losses in the form of a non-accretable discount of $15.1 million, or 0.24% of the balance of these securities. [Emphasis added.]

49. The statements contained in ¶¶ 31 – 48 were materially false and misleading when made because defendants failed to disclose or indicate the following: (1) that the Company was facing an increasing level of margin calls; (2) that the Company was experiencing increasing difficulties in funding its operations and selling its securities; (3) that the Company was in a precarious liquidity position due to reduced financing options; (4) that the Company's financial situation had significantly deteriorated causing the Company to sell over $20 billion in securities

at a steep discount; (5) that the Company's financial statements were materially false and misleading; and (6) that the Company lacked adequate internal and financial controls.

**The Truth Begins to Emerge**

50. On August 7, 2007, Deutsche Bank downgraded Thornburg Mortgage from "Hold." In an article entitled "Out of the Gate: Thornburg Mortgage Dips," *The Associated Press* reported:

> **Shares of Thornburg Mortgage Slip on Deutsche Bank Downgrade**
>
> Shares of Thornburg Mortgage Inc. plunged at the opening bell Tuesday after a Deutsche Bank analyst downgraded the mortgage financier.
>
> ***Deutsche Bank analyst Stephen Laws downgraded Thornburg Mortgage to "Sell" from "Hold." He said the Santa Fe, N.M.-based mortgage debt investor is not immune to the credit shocks plaguing the entire mortgage debt industry.***
>
> * * *
>
> ***Even though Thornburg Mortgage's loans carry good credit quality, Laws said because of the lack of liquidity in these markets the value of the company's portfolio is sinking.***
>
> ***This exposes the company to margin calls, which means lenders demanding their money back because collateral securing credit lines is dwindling in value.***
>
> Shares of Thornburg Mortgage slipped $2.08, or 8.7 percent, to $21.76 in morning trading Tuesday. The shares have traded in a range of $20.02 to $28.40 in the past year. [Emphasis added.]

51. On this news, the Company's shares declined $1.89 per share, or 7.9 percent, to close on August 7, 2007 at $21.95 per share, on unusually heavy trading volume.

52. Then on August 10, 2007, Standard & Poor's cut the Company's credit rating from "B" to "BB," noting:

> **REIT taxable earnings cannot support dividend; margin calls possible**
>
> We are downgrading Thornburg to a Sell from a Hold and reducing our price target to $19 per share from $27 per share, as ***we do not expect REIT taxable earnings to support the current dividend*** (forecast 4Q07 cut). With the company holding primarily AAA-rated RMBS in its securities portfolio, we believe Thornburg could face margin calls similar to other mortgage companies holding AAA-rated private label securities.
>
> **We believe dividend is at risk**
>
> While Thornburg reported 2Q taxable earnings of $0.65 per share ($0.03 per share below the dividend), 2Q included a prepayment benefit of $0.06 per share. Typically, prepayments generate an expense of $0.05 to $0.10 per share. ***While Thornburg has issued guidance for 2008 earnings to be roughly in line with the current dividend level of $2.72 per share, we believe this guidance is optimistic. With only $0.05 per share of undistributed REIT taxable income at June 30, we are forecasting a dividend cut*** in 4Q to $0.60 per share. [Emphasis added.]

53. Also on August 10, 2007, AG Edwards downgraded the Company's securities from "Buy" to "Hold/Speculative," noting that the Company "could receive additional margin calls and potentially have credit lines pulled, which could negatively impact earnings, dividends and book value."

54. On this news, shares of the Company fell an additional $3.17 per share, or 14.9 percent, to close on August 10, 2007 at $18.06 per share, again on unusually heavy trading volume.

55. Later on August 10, 2007, in an article entitled "S&P Lowers Thornburg Mortgage Rating," *The Associated Press* reported:

> **Standard & Poor's Lowers Thornburg Mortgage Credit Rating, Places on CreditWatch Negative**
>
> ***Standard & Poor's Ratings Services on Friday lowered its long-term credit rating on Thornburg Mortgage Inc., a prime mortgage lender, and placed the rating on CreditWatch Negative***

> ***to reflect the unsteady state of the secured financing capital market.***
>
> ***S&P downgraded Thornburg to "B" from "BB." Both ratings are junk bond ratings.***
>
> The Santa Fe, New Mexico based lender relies on the secured financing capital markets to fund its real estate investment trust operations.
>
> "While the company's balance sheet is comprised of high-quality assets, ***dislocation in pricing of all mortgage assets has restricted Thornburg's access to repo funding and the company is facing increasing margin calls," wrote S&P credit analyst Adom Rosengarten in a research report.***
>
> ***Thornburg's reliance on short-term funding is further restricting its access to liquidity, the note said.***
>
> ***The placement on CreditWatch Negative reflects the potential for further rating downgrades if the company fails to weather the liquidity crunch, S&P said.***
>
> Thornburg shares fell $3.28, or 15.5 percent, to $17.95 Friday. The shares have traded between $20.02 and $28.40 in the past 12 months. [Emphasis added.]

56. On August 13, 2007, *The Associated Press* reported:

> **Thornburg Shares Hit 52-Week Low**
>
> **Thornburg Shares Fall on Lower Credit Rating and Mortgage Market Worries, Hit 52-Week Low**
>
> Shares of Thornburg Mortgage Inc., a prime mortgage lender and real estate investment trust, ***fell in Monday trading after Standard & Poor's downgraded its credit rating Friday and as concerns in the mortgage market persist***.
>
> Shares of Thornburg Mortgage lost $2.89, or 16 percent, to $15.17 in afternoon trading, and reached a 52-week low of $14.51 in earlier in the day. Shares had traded between $17.30 and $28.40 during the past year.
>
> ***S&P downgraded Thornburg Mortgage's long-term counterparty credit rating to "B" from "BB" Friday, citing the "unsteady state of secured financing capital markets" that the company relies upon to fund operations.***

> ***The credit-rating downgrade means Thornburg will likely have to pay higher interest or provide more collateral to borrow money in the future.***
>
> ***Coupled with increasingly illiquid capital markets, Thornburg could see a "significant impact on the company's ability to retain assets and generate income," David Hochstim, an analyst for Bear Stearns Cos., said in a research note Monday.***
>
> ***Higher borrowing costs and reduced available money in the capital markets could put a dent in the company's bottom line and force Thornburg Mortgage to cut its dividend.*** [Emphasis added.]

57. On this news, the Company's shares declined an additional $3.78 per share, or over 20.9 percent, to close on August 13, 2007 at $14.28 per share, on heavy trading volume.

58. Then on August 14, 2007, the Company's securities were downgraded by Piper Jaffray, Jefferies & Co, Friedman Billings Ramsey & Co., RBC Capital Markets, and Credit Suisse. Friedman Billings noted that its downgrade of the Company's stock reflected the "current liquidity crisis in the asset-backed commercial paper and repurchase markets." Additionally, Piper Jaffray stated that the Company was "having increased liquidity pressures."

59. Also on August 14, 2007, Moody's cut the Company's credit ratings two levels to B2, its fifth-highest speculative-grade ranking, and left the ratings on review for another downgrade.

60. On this news, the Company's shares declined an additional $6.67 per share, or 46.7 percent, to close on August 14, 2007 at $7.61 per share, on unusually heavy trading volume.

61. Later on August 14, 2007, the Company shocked investors when it issued a press release entitled "Thornburg Mortgage Announces Change of Second Quarter Dividend Payment Date to September 17." Therein, the Company, in relevant part, stated:

> Thornburg Mortgage, Inc. (NYSE: TMA), a leading single-family prime residential mortgage lender focused principally on the jumbo segment of the adjustable rate mortgage market, announced today

that its Board of Directors has rescheduled the payment date of the company's second quarter common dividend of $0.68 per share to September 17, 2007. By September 17, the company will receive its scheduled monthly mortgage payments for August and will have had more opportunity to manage through this difficult environment. The dividend was originally scheduled to be paid on August 15, 2007 to shareholders of record on August 3, 2007, as previously noted in the company's second quarter earnings announcement on July 19, 2007.

***The Board of Directors said it took this action in response to significant disruptions in the mortgage market which resulted in the sudden and unprecedented decline in the market prices of its AAA-rated mortgage securities that began on August 9, 2007 and subsequent increase in margin calls related to its repurchase agreement financings on those securities. There have also been disruptions in the company's ability to fund its mortgage assets in the commercial paper and the asset-backed securities markets. To date, the company has successfully met all of its commercial paper obligations. Finally, the company has also experienced delays in its ability to fund mortgage loans to its lending partners.***

***Commenting on the Board's decision, Larry Goldstone, the company's president and chief operating officer, said, "After extensive deliberation, and acknowledging the severity of the situation, the Board determined that the best way to preserve shareholder value in the near term and grow it over time is to retain our cash to enhance our ability to work with our lenders and weather this tumultuous environment. We will continue to monitor the situation."***

***Mr. Goldstone continued, "After careful analysis of the current value of our mortgage securities portfolio, we believe that our book value, which includes recent changes in the market value of our mortgage securities and liabilities is $14.28 per share as of August 13, 2007 versus $19.38 per share as of June 30, 2007.*** The majority of that book value decline has occurred over the past week, and is not a reflection of a change in the credit quality of our mortgage assets. As such, and barring substantial additional decline in the market value of mortgage-backed securities, we will continue to originate and invest in high-quality mortgage assets once we get through this environment. While this market event represents a disappointing setback for us and our shareholders, we will rebuild when the environment stabilizes." [Emphasis added.]

62. In an article entitled "Thornburg Delays Dividend; Shares Tumble Before Halt,"

*Bloomberg* reported:

> ***Thornburg Mortgage Inc. postponed its dividend and said it's exploring the sale of mortgage assets, capping a day in which the shares lost nearly half their value after five brokerages downgraded the stock.***
>
> ***Thornburg, which specializes in so-called jumbo mortgages too big to be resold to Fannie Mae and Freddie Mac, said after the close of trading that it's delaying by one month the payment of a 68-cent dividend scheduled for tomorrow.*** Santa Fe, New Mexico-based Thornburg's book value fell 26 percent this month after an "unprecedented decline" in the market prices of its loans since Aug. 9.
>
> ***The shares, which had plunged 47 percent to a seven-year low of $7.61 before they were halted about 30 minutes before the close of trading on the New York Stock Exchange, rebounded as high as $9 in after-hours trading.*** Thornburg President Larry Goldstone said in a televised interview on CNBC that the company is "absolutely not" planning to file for bankruptcy protection and "we are clearly a going concern."
>
> ***In a statement on Business Wire, Goldstone said Thornburg's own analysis concluded that its book value is $14.28 a share as of yesterday, down from $19.38 on June 30. That would mean the stock is trading at discount of almost 50 percent to its liquidation value.***
>
> * * *
>
> ***Earlier today, five brokerages cut their ratings to the equivalent of "sell," citing concern Thornburg may need to dump assets or reduce its dividend because of a liquidity squeeze.***
>
> ***Friedman, Billings, Ramsey & Co. analyst Paul Miller, who lowered the stock to "underperform" from "market perform," said the downgrade "reflects the current liquidity crisis in the asset-backed commercial paper and repurchase markets."***
>
> ***Moody's today cut Thornburg's credit ratings two levels to B2, its fifth-highest speculative-grade ranking, and left the ratings on review for another downgrade. High-yield, or junk, bonds are those rated below Baa3 by Moody's and BBB- by Standard & Poor's.***
>
> * * *

**Stock Downgrades**

***Piper Jaffray & Co. cut its share rating on Thornburg to "underperform" from "market perform." Credit Suisse Group, Jefferies & Co., RBC Capital Markets also downgraded the stock to "underperform."***

***Thornburg shares fell $6.67 to $7.61 in composite trading on the New York Stock Exchange, bringing the year-to-date decline to 70 percent.***

***Thornburg's $305 million of 8 percent notes due in 2013 tumbled 22 cents to 52 cents on the dollar, according to Trace, the bond-price reporting system of the NASD.*** The extra yield, or spread, investors demand to own the debt instead of similar maturity Treasuries widened to 19.2 percentage points from 10.4 percentage points yesterday, Trace data show.

***The company had its credit rating cut on Aug. 10 by Standard & Poor's because of the "unsteady state of the secured financing capital markets."*** Investors are demanding higher yields on asset-backed commercial paper as losses from U.S.

In July, Goldstone said Thornburg's streak of not losing a single dollar on bad loans came to an end after more than 20 quarters. [Emphasis added.]

63. On August 15, 2007, the Company was again downgraded by AG Edwards, from "Hold/Speculative" to "Sell/Speculative." The analyst report, in relevant part, stated:

**Downgrading to Sell**

- **We are downgrading TMA to Sell/Speculative from Hold/Speculative based on the significantly higher probability, in our minds, of the liquidation scenario outlined over the last several days versus the probability of successfully navigating the current liquidity crisis**

- **TMA announced last night that it is delaying the payment of the common dividend until September 17th, due to the company's liquidity position**

- **Based on the current excessive volatility, the lack of visibility into the mortgage market and the leverage employed by TMA of roughly 12:1 debt-to-equity on its repo lines of credit, we think the speculative risk has**

**increased at this point in time. We do not have enough information regarding the liquidity in the mortgage market, pricing in the mortgage market and bank lender appetite for mortgage risk during this current crisis to make an informed decision on the long-term performance of TMA.**

- **We would expect some short-term strength in the shares given the positive tone of TMA's press release yesterday and recommend using the opportunity to sell into the strength.**

***We are downgrading TMA to Sell/Speculative from Hold/Speculative based on the significantly higher probability, in our minds, of the liquidation scenario outlined over the last several days versus the probability of successfully navigating the current liquidity crisis.***

***When we recently (August 10) downgraded TMA to Hold from Buy and changed the suitability to Speculative from Aggressive, we outlined what we believed to be two potential scenarios:*** 1) TMA would be able to successfully navigate this current liquidity crisis, maintaining book value, earnings and dividends which could possibly result in the shares recovering some of their lost value; and ***2) TMA would be required to liquidate the $25 billion of assets backed by repurchase agreement (repo) lines of credit resulting in a significant decline in book value, earnings and the dividend. Based on TMA's press release yesterday and an interview with TMA's President, Larry Goldstone last night on CNBC we believe the second scenario to be more probable. Here's why:***

- TMA announced last night (August 14) that it is delaying the payment of the common dividend (originally payable today) until September 17th, due to the company's liquidity position. Clearly, TMA is under significant liquidity pressure to maintain its cash position; however, we remain concerned should the liquidity situation not improve by September 17th, ***TMA could be at risk for either not paying the dividend or potentially paying the dividend but hurting its fundamental standing with its creditors***.

- Mr. Goldstone's statement that the continued disruptions in the marketplace make it difficult to maintain TMA's liquidity and fund daily obligations.

- ***TMA is halting its loan origination activities for four days. Should the liquidity situation persist, we would expect the cessation of origination activity to continue beyond four days.***

- TMA announced it valued its portfolio at $14.28 per share as of August 13th. By our calculations, ***this implies TMA is valuing its assets backed by repo and commercial paper at roughly 98 cents on the dollar***. At present, the mortgage market remains extremely volatile, thus ***we have heightened concerns that TMA could see additional negative marks in its portfolio. In addition, we are concerned if TMA were to default on one of its covenants all of its lines of credit could be pulled and TMA would be required to liquidate its entire $25 billion repo-backed assets at a single point in time. If TMA is forced to sell a significant block of assets, in what is still a very illiquid market, the sale could result in losses significantly greater than 2%.*** Based on the impact of the current estimated decline in book value of roughly $5 for a 2% decline in asset value, ***we now estimate any value under 92 cents on the dollar would potentially eliminate all common and preferred stockholders equity***.

- ***We are also skeptical about TMA calculated book value of $14.28 based on its statement that it "includes recent changes in the market value of our mortgage securities and liabilities." While we have not been able to verify this with the company we believe TMA wrote down the value of both its assets and liabilities.*** While financial theory may make an argument that liabilities should be written down in this market, in our minds ***it does not represent a practical adjustment should liquidation occur and it is not allowed under GAAP accounting rules*** (the press release did not claim that $14.28 was GAAP book value). Should TMA have to liquidate its portfolio, it would have to repay its repo lines of credit at par, not a theoretical value below par. [Emphasis added.]

64. Also on August 15, 2007, Deutsche Bank issued an analyst report reducing its estimates for the Company, while maintaining its "Sell" recommendation. The report, in relevant part, stated:

> **We expect difficult market conditions to continue; Maintain Sell**
>
> Difficult conditions in the mortgage market are impacting Thornburg's business, as ***the company is facing margin calls, loan***

> ***funding disruptions, and selling assets. Given the deteriorating market conditions, Thornburg has delayed the payment of its 2Q dividend to 9/17 from 8/15. We expect conditions to remain difficult. We are maintaining our Sell rating and reducing our target to $7 per share.***
>
> **Portfolio size likely to be reduced by asset sales**
>
> ***Given Thornburg halted new loan lock-ins for the remainder of the week and will likely sell assets to meet margin calls, we are sharply reducing our estimates. We are reducing our 2007 and 2008 EPS estimates to $1.95 and $1.35, respectively, from $2.43 and $2.43, respectively. We are also cutting our future quarterly dividend estimates in half to $0.30 per share from $0.60 per share. Our estimate reductions are a result of lower leverage, a 25% reduction in portfolio size estimate, and tighter net interest spread assumptions.***
>
> **Reducing target to $7 per share from $19 per share**
>
> We are reducing our target due to a reduction in the company's book value and a change in our methodology to a BV multiple from a yield assumption. ***Our new target is based on our belief shares should trade at a 50% discount to BV of $14.28 per share.*** Our previous estimate was based on a 12.5% yield assumption to our previous 2008 dividend estimate. Given difficulties projecting dividends in the current market conditions, we believe a BV-based valuation is appropriate. [Emphasis added.]

65. Then on August 20, 2007, the Company was forced to sell $20.5 billion of securities at a discount to pay down debt. As *Bloomberg* reported:

> Thornburg Mortgage Inc., the jumbo-mortgage specialist that stopped taking loan applications last week because of a cash crunch, sold $20.5 billion of securities at a discount to pay down debt it couldn't refinance.
>
> The Santa Fe, New Mexico-based company ***will record a $930 million loss in the third quarter on the sale of the mortgage-backed bonds, resulting in a probable net loss for the year, President Larry Goldstone said in an interview. Thornburg's shares, which gyrated between $7.49 and $18.35 last week, dropped as much as 13 percent today.***
>
> Thornburg curtailed new mortgages after investors in the $2.2 trillion U.S. commercial-paper market refused to buy the short-

term debt that it used to finance home loans. The company said in a statement that it now expects "to resume normal operations over the next two weeks" instead of today as planned.

"We want to try to resume our lending operations this week and next week, but I can't tell you whether it's going to be today or tomorrow or Wednesday," Goldstone said in the interview. "We've still got some things we need to work on before we can get that opened up."

***While Thornburg "appears likely to survive its liquidity crisis, we believe future earnings power has been materially damaged," said Jefferies Group Inc. analyst Richard Shane Jr. in a note to investors today. He rates the shares "underperform."***

**Market Reaction**

Thornburg's stock fell $1.54, or 10 percent, to $13.50 in 4:02 p.m. composite trading on the New York Stock Exchange, bringing the decline this year to 46 percent.

* * *

***Fitch Ratings today cut the company's corporate bond rating to CCC, or the fourth-lowest of 11 "junk" ratings, which are assigned to companies that fall below investment-grade. The New York-based ratings service cited "concern for Thornburg's ability to generate and maintain adequate liquidity under current market conditions."***

* * *

Goldstone said Thornburg was forced to accept bids of about 95 cents on the dollar for mortgage-backed securities with AAA ratings. ***The company's "book value," or assets minus liabilities, fell by 13 percent in just four days, according to the statement.***

**Book Value Falls**

***As of Aug. 17, book value stood at $12.40, compared with $14.28 on Aug. 13 and $19.38 on June 30, the statement said. The sales cut the company's portfolio of mortgage assets to $36.4 billion from $56.4 billion.***

* * *

Thornburg is now trying to "figure out just exactly what we can do from a cash, liquidity and financing perspective in order to move

> our operations back to some semblance of normalcy," Goldstone said. "The mortgage-finance market is still in a distressed or non-functional" state.
>
> The company affirmed that the second-quarter dividend of 68 cents a share, which was delayed a month until Sept. 17, will be paid on schedule. ***Thornburg won't provide any guidance on earnings or the size of future dividends beyond that date.*** [Emphasis added.]

66. On this news, the Company's shares declined an additional $1.54, or 10.2 percent, to close on August 20, 2007 at $13.50 per share, on heavy trading volume.

## POST CLASS PERIOD DEVELOPMENTS

67. On August 30, 2007, the Company was forced to sell $500 million of cumulative convertible redeemable preferred stock to raise additional capital. As *Bloomberg* reported:

> ***Thornburg Mortgage Inc., the jumbo-mortgage specialist forced to stop making new loans, sold $500 million of preferred stock to alleviate a cash shortage.***
>
> Proceeds from the sale will help the Santa Fe, New Mexico- based company start making new loans and buy mortgage-backed securities, Thornburg said in a statement. The sale was completed four hours after it was announced, spurring a rally of almost 6 percent in the company's shares.
>
> "This should help Thornburg stave off some of the concerns about the viability of its business," said Jason Arnold, a San Francisco-based analyst at RBC Capital Markets. "I don't know if all concerns are averted given that there is a lot of turmoil in the market, but it is certainly a plus."
>
> * * *
>
> ***The preferred shares will pay a dividend of at least 10 percent and be convertible into common stock at $11.50 apiece. Proceeds from the sale after fees were about $473 million, Thornburg said. Friedman, Billings, Ramsey Group Inc., the underwriter, has the option to add another 3 million shares to the 20 million sold.***
>
> ***The cost of the dividend, as well as issuing new shares if the preferred stock is converted, will erode earnings per share, said RBC's Arnold, who has an "underperform" rating on the Thornburg.***

> ***"It could be something that winds up eating into the company's earnings stream," he said.*** "But I honestly don't think that this is sizable enough to result in some material negative implications."
>
> * * *
>
> ***The company is also negotiating the securitization of $1.4 billion of adjustable-rate mortgages and will reduce its borrowing under so-called warehouse lines of credit***, typically provided by banks, by a similar amount. [Emphasis added.]

68. On September 4, 2007, *The Associated Press* reported that the Company had borrowed $1.44 billion using a pool of home loans as collateral. The article further stated:

> The loan deal was made in tandem with Thornburg's $500 million sale last week of a special class of stock, which allowed the lender to resume financing home loans.
>
> That followed a $20.5 billion sale last month of the Santa Fe, N.M.-based mortgage lender's most valuable investments, at a loss of $930 million.

## PLAINTIFF'S CLASS ACTION ALLEGATIONS

69. Plaintiff brings this action as a class action pursuant to Federal Rule of Civil Procedure 23(a) and (b)(3) on behalf of a Class, consisting of all those who purchased Thornburg Mortgage's securities between October 6, 2005 and August 17, 2007, inclusive (the "Class Period") and who were damaged thereby. Excluded from the Class are defendants, the officers and directors of the Company, at all relevant times, members of their immediate families and their legal representatives, heirs, successors or assigns and any entity in which defendants have or had a controlling interest.

70. The members of the Class are so numerous that joinder of all members is impracticable. Throughout the Class Period, Thornburg Mortgage's securities was actively traded on the New York Stock Exchange ("NYSE"). While the exact number of Class members is unknown to Plaintiff at this time and can only be ascertained through appropriate discovery,

Plaintiff believes that there are hundreds or thousands of members in the proposed Class. Record owners and other members of the Class may be identified from records maintained by Thornburg Mortgage or its transfer agent and may be notified of the pendency of this action by mail, using the form of notice similar to that customarily used in securities class actions.

71. Plaintiff's claims are typical of the claims of the members of the Class as all members of the Class are similarly affected by defendants' wrongful conduct in violation of federal law that is complained of herein.

72. Plaintiff will fairly and adequately protect the interests of the members of the Class and has retained counsel competent and experienced in class and securities litigation.

73. Common questions of law and fact exist as to all members of the Class and predominate over any questions solely affecting individual members of the Class. Among the questions of law and fact common to the Class are:

(a) whether the federal securities laws were violated by defendants' acts as alleged herein;

(b) whether statements made by defendants to the investing public during the Class Period misrepresented material facts about the business, operations and management of Thornburg Mortgage; and

(c) to what extent the members of the Class have sustained damages and the proper measure of damages.

74. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy since joinder of all members is impracticable. Furthermore, as the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation make it impossible for members of the Class to individually

redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.

## UNDISCLOSED ADVERSE FACTS

75. The market for Thornburg Mortgage's securities was open, well-developed and efficient at all relevant times. As a result of these materially false and misleading statements and failures to disclose, Thornburg Mortgage's securities traded at artificially inflated prices during the Class Period. Plaintiff and other members of the Class purchased or otherwise acquired Thornburg Mortgage's securities relying upon the integrity of the market price of Thornburg Mortgage's securities and market information relating to Thornburg Mortgage, and have been damaged thereby.

76. During the Class Period, defendants materially misled the investing public, thereby inflating the price of Thornburg Mortgage's securities, by publicly issuing false and misleading statements and omitting to disclose material facts necessary to make defendants' statements, as set forth herein, not false and misleading. Said statements and omissions were materially false and misleading in that they failed to disclose material adverse information and misrepresented the truth about the Company, its business and operations, as alleged herein.

77. At all relevant times, the material misrepresentations and omissions particularized in this Complaint directly or proximately caused or were a substantial contributing cause of the damages sustained by Plaintiff and other members of the Class. As described herein, during the Class Period, defendants made or caused to be made a series of materially false or misleading statements about Thornburg Mortgage's financial well-being and prospects. These material misstatements and omissions had the cause and effect of creating in the market an unrealistically positive assessment of Thornburg Mortgage and its financial well-being and prospects, thus

causing the Company's securities to be overvalued and artificially inflated at all relevant times. Defendants' materially false and misleading statements during the Class Period resulted in Plaintiff and other members of the Class purchasing the Company's securities at artificially inflated prices, thus causing the damages complained of herein.

## LOSS CAUSATION

78. Defendants' wrongful conduct, as alleged herein, directly and proximately caused the economic loss suffered by Plaintiff and the Class.

79. During the Class Period, Plaintiff and the Class purchased Thornburg Mortgage's securities at artificially inflated prices and were damaged thereby. The price of Thornburg Mortgage's securities significantly declined when the misrepresentations made to the market, and/or the information alleged herein to have been concealed from the market, and/or the effects thereof, were revealed, causing investors' losses.

## SCIENTER ALLEGATIONS

80. As alleged herein, defendants acted with scienter in that defendants knew that the public documents and statements issued or disseminated in the name of the Company were materially false and misleading; knew that such statements or documents would be issued or disseminated to the investing public; and knowingly and substantially participated or acquiesced in the issuance or dissemination of such statements or documents as primary violations of the federal securities laws. As set forth elsewhere herein in detail, defendants, by virtue of their receipt of information reflecting the true facts regarding Thornburg Mortgage , their control over, and/or receipt and/or modification of Thornburg Mortgage's allegedly materially misleading misstatements and/or their associations with the Company which made them privy to confidential proprietary information concerning Thornburg Mortgage, participated in the

fraudulent scheme alleged herein.

81. Additionally, during the Class Period, the Company utilized the artificially inflated price of its securities to complete numerous public financing activities. For example, on November 15, 2006, the Company received $100 million in a preferred equity offering by selling 4 million shares of cumulative redeemable preferred stock to investors at $25.00 per share. Then on May 4, 2007, the Company received an additional $121.7 million in gross proceeds by selling 4.5 million shares of its stock to investors at $27.05 per share. Also, on June 14, 2007, the Company received $68.8 million by selling 2.75 million shares of convertible redeemable preferred stock to investors at $25.00 per share.

**Applicability of Presumption of Reliance:**
**Fraud On The Market Doctrine**

82. At all relevant times, the market for Thornburg Mortgage's securities was an efficient market for the following reasons, among others:

(a) Thornburg Mortgage's stock met the requirements for listing, and was listed and actively traded on the NYSE, a highly efficient and automated market;

(b) As a regulated issuer, Thornburg Mortgage filed periodic public reports with the SEC and the NYSE;

(c) Thornburg Mortgage regularly communicated with public investors via established market communication mechanisms, including through regular disseminations of press releases on the national circuits of major newswire services and through other wide-ranging public disclosures, such as communications with the financial press and other similar reporting services; and

(d) Thornburg Mortgage was followed by several securities analysts employed by major brokerage firms who wrote reports which were distributed to the sales force and certain customers of their respective brokerage firms. Each of these reports was publicly available and entered the public marketplace.

83. As a result of the foregoing, the market for Thornburg Mortgage's securities promptly digested current information regarding Thornburg Mortgage from all publicly-available sources and reflected such information in Thornburg Mortgage's stock price. Under these circumstances, all purchasers of Thornburg Mortgage's securities during the Class Period suffered similar injury through their purchase of Thornburg Mortgage's securities at artificially inflated prices and a presumption of reliance applies.

## NO SAFE HARBOR

84. The statutory safe harbor provided for forward-looking statements under certain circumstances does not apply to any of the allegedly false statements pleaded in this Complaint. Many of the specific statements pleaded herein were not identified as "forward-looking statements" when made. To the extent there were any forward-looking statements, there were no meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the purportedly forward-looking statements. Alternatively, to the extent that the statutory safe harbor does apply to any forward-looking statements pleaded herein, defendants are liable for those false forward-looking statements because at the time each of those forward-looking statements was made, the particular speaker knew that the particular forward-looking statement was false, and/or the forward-looking statement was authorized and/or approved by an executive officer of Thornburg Mortgage who knew that those statements

were false when made.

**FIRST CLAIM**
**Violation of Section 10(b) of**
**The Exchange Act and Rule 10b-5**
**Promulgated Thereunder Against All Defendants**

85. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

86. During the Class Period, defendants carried out a plan, scheme and course of conduct which was intended to and, throughout the Class Period, did: (i) deceive the investing public, including Plaintiff and other Class members, as alleged herein; and (ii) cause Plaintiff and other members of the Class to purchase Thornburg Mortgage's securities at artificially inflated prices. In furtherance of this unlawful scheme, plan and course of conduct, defendants, and each of them, took the actions set forth herein.

87. Defendants (i) employed devices, schemes, and artifices to defraud; (ii) made untrue statements of material fact and/or omitted to state material facts necessary to make the statements not misleading; and (iii) engaged in acts, practices, and a course of business which operated as a fraud and deceit upon the purchasers of the Company's securities in an effort to maintain artificially high market prices for Thornburg Mortgage's securities in violation of Section 10(b) of the Exchange Act and Rule 10b-5. All defendants are sued either as primary participants in the wrongful and illegal conduct charged herein or as controlling persons as alleged below.

88. Defendants, individually and in concert, directly and indirectly, by the use, means or instrumentalities of interstate commerce and/or of the mails, engaged and participated in a continuous course of conduct to conceal adverse material information about Thornburg Mortgage's financial well-being and prospects, as specified herein.

89. These defendants employed devices, schemes and artifices to defraud, while in possession of material adverse non-public information and engaged in acts, practices, and a course of conduct as alleged herein in an effort to assure investors of Thornburg Mortgage's value and performance and continued substantial growth, which included the making of, or the participation in the making of, untrue statements of material facts and omitting to state material facts necessary in order to make the statements made about Thornburg Mortgage and its business operations and future prospects in light of the circumstances under which they were made, not misleading, as set forth more particularly herein, and engaged in transactions, practices and a course of business which operated as a fraud and deceit upon the purchasers of Thornburg Mortgage's securities during the Class Period.

90. Each of the Individual Defendants' primary liability, and controlling person liability, arises from the following facts: (i) the Individual Defendants were high-level executives and/or directors at the Company during the Class Period and members of the Company's management team or had control thereof; (ii) each of these defendants, by virtue of his responsibilities and activities as a senior officer and/or director of the Company was privy to and participated in the creation, development and reporting of the Company's internal budgets, plans, projections and/or reports; (iii) each of these defendants enjoyed significant personal contact and familiarity with the other defendants and was advised of, and had access to, other members of the Company's management team, internal reports and other data and information about the Company's finances, operations, and sales at all relevant times; and (iv) each of these defendants was aware of the Company's dissemination of information to the investing public which they knew or recklessly disregarded was materially false and misleading.

91. The defendants had actual knowledge of the misrepresentations and omissions of

material facts set forth herein, or acted with reckless disregard for the truth in that they failed to ascertain and to disclose such facts, even though such facts were available to them. Such defendants' material misrepresentations and/or omissions were done knowingly or recklessly and for the purpose and effect of concealing Thornburg Mortgage's financial well-being, business relationships, and prospects from the investing public and supporting the artificially inflated price of its securities. As demonstrated by defendants' overstatements and misstatements of the Company's financial well-being and prospects throughout the Class Period, defendants, if they did not have actual knowledge of the misrepresentations and omissions alleged, were reckless in failing to obtain such knowledge by deliberately refraining from taking those steps necessary to discover whether those statements were false or misleading.

92. As a result of the dissemination of the materially false and misleading information and failure to disclose material facts, as set forth above, the market price of Thornburg Mortgage's securities was artificially inflated during the Class Period. In ignorance of the fact that market prices of Thornburg Mortgage's securities were artificially inflated, and relying directly or indirectly on the false and misleading statements made by defendants, or upon the integrity of the market in which the security trades, and/or in the absence of material adverse information that was known to or recklessly disregarded by defendants, but not disclosed in public statements by defendants during the Class Period, Plaintiff and the other members of the Class acquired Thornburg Mortgage's securities during the Class Period at artificially high prices and were damaged thereby.

93. At the time of said misrepresentations and omissions, Plaintiff and other members of the Class were ignorant of their falsity, and believed them to be true. Had Plaintiff and the other members of the Class and the marketplace known the truth regarding the problems that

Thornburg Mortgage was experiencing, which were not disclosed by defendants, Plaintiff and other members of the Class would not have purchased or otherwise acquired their Thornburg Mortgage securities, or, if they had acquired such securities during the Class Period, they would not have done so at the artificially inflated prices which they paid.

94. By virtue of the foregoing, defendants have violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder.

95. As a direct and proximate result of defendants' wrongful conduct, Plaintiff and the other members of the Class suffered damages in connection with their respective purchases and sales of the Company's securities during the Class Period.

## SECOND CLAIM
## Violation of Section 20(a) of The Exchange Act Against the Individual Defendants

96. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

97. The Individual Defendants acted as controlling persons of Thornburg Mortgage within the meaning of Section 20(a) of the Exchange Act as alleged herein. By virtue of their high-level positions, and their ownership and contractual rights, participation in and/or awareness of the Company's operations and/or intimate knowledge of the false financial statements filed by the Company with the SEC and disseminated to the investing public, the Individual Defendants had the power to influence and control and did influence and control, directly or indirectly, the decision-making of the Company, including the content and dissemination of the various statements which Plaintiff contends are false and misleading. The Individual Defendants were provided with or had unlimited access to copies of the Company's reports, press releases, public filings and other statements alleged by Plaintiff to be misleading

prior to and/or shortly after these statements were issued and had the ability to prevent the issuance of the statements or cause the statements to be corrected.

98. In particular, each of these defendants had direct and supervisory involvement in the day-to-day operations of the Company and, therefore, is presumed to have had the power to control or influence the particular transactions giving rise to the securities violations as alleged herein, and exercised the same.

99. As set forth above, Thornburg Mortgage and the Individual Defendants each violated Section 10(b) and Rule 10b-5 by their acts and omissions as alleged in this Complaint. By virtue of their positions as controlling persons, the Individual Defendants are liable pursuant to Section 20(a) of the Exchange Act. As a direct and proximate result of defendants' wrongful conduct, Plaintiff and other members of the Class suffered damages in connection with their purchases of the Company's securities during the Class Period.

**WHEREFORE**, Plaintiff prays for relief and judgment, as follows:

(a) Determining that this action is a proper class action under Rule 23 of the Federal Rules of Civil Procedure;

(b) Awarding compensatory damages in favor of Plaintiff and the other Class members against all defendants, jointly and severally, for all damages sustained as a result of defendants' wrongdoing, in an amount to be proven at trial, including interest thereon;

(c) Awarding Plaintiff and the Class their reasonable costs and expenses incurred in this action, including counsel fees and expert fees; and

(d) Such other and further relief as the Court may deem just and proper.

**JURY TRIAL DEMANDED**

Plaintiff hereby demands a trial by jury.

Dated: September 20, 2007

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